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**MONTANA MEDICAL LEGAL PANEL**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2001 AND 2000**

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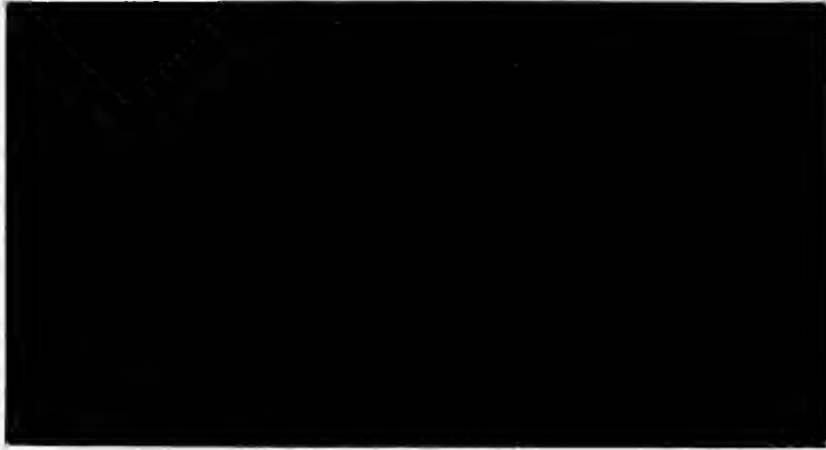


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**MONTANA MEDICAL LEGAL PANEL**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2001 AND 2000**



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

June 2002

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Medical Legal Panel for the two years ended December 31, 2001.

Henry Fenton, Certified Public Accountant, conducted the audit under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The Panel's written response is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat  
Legislative Auditor

Enclosure

(02C-01)



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**MONTANA MEDICAL LEGAL PANEL**

**ADMINISTRATIVE OFFICIALS**

G. Brian Zins

Director

Kathleen Whitehead

Assistant Director



**MONTANA MEDICAL LEGAL PANEL  
December 31, 2001**

**SUMMARY OF RECOMMENDATIONS**

Page 11 - Item 01-01

Recommendation

I recommend that the Panel more closely monitor deposit balances to avoid exceeding the insurance limits.

Agency Response.

We will monitor the deposit balances more closely to ensure the balances do not at all exceed the insurance limits.



**HENRY FENTON  
CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT**

May 21, 2002

Mr. G. Brian Zins, Director  
Montana Medical Legal Panel  
2021 Eleventh Avenue  
Helena, Mt. 59601

I have audited the accompanying statement of assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 2001 and 2000, and the related statement of revenues collected, expenses paid, and changes in surplus arising from cash transactions for the two years then ended. These financial statements are the responsibility of the management of the Montana Medical Legal Panel. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the Montana Medical Legal Panel's policy is to prepare its financial statements on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 2001 and 2000 and its revenues collected, expenses paid, and changes in surplus for the two years then ended, on the basis of accounting described in Note 1.



In accordance with *Government Auditing Standards*, I have also issued a report dated May 21, 2002 on my consideration of the Montana Medical Legal Panel's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

  
Certified Public Accountant





**MONTANA MEDICAL LEGAL PANEL  
STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS  
ARISING FROM CASH TRANSACTIONS  
DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
Current assets:		
Cash in bank	<u>\$267,530</u>	<u>\$229,055</u>
Total current assets	<u><u>\$267,530</u></u>	<u><u>\$229,055</u></u>
 <b>LIABILITIES AND SURPLUS</b>		
Surplus	<u><u>\$267,530</u></u>	<u><u>\$229,055</u></u>

See accompanying notes to financial statements.



**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENT OF REVENUES COLLECTED, EXPENSES PAID, AND CHANGES IN SURPLUS**  
**ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b>Income:</b>		
Assessment fees	\$580,053	\$516,108
Interest income	11,341	8,936
Miscellaneous income	1,316	2,285
<b>Total income</b>	<u>592,710</u>	<u>527,329</u>
<b>Expenses:</b>		
Administrative	197,688	208,292
Panelist hearing time	93,461	129,813
Panelist preparation and travel time	46,513	61,524
Panelist travel	57,484	77,813
Meeting rooms	6,916	9,808
Records reproduction	35,832	53,814
Postage	18,480	22,698
Medical records and x-rays	24,143	25,363
Telephone	15,438	18,562
Office supplies	3,949	6,299
Panel legal counsel	27,624	61,204
Legal defense	5,256	3,060
Computer software	13,689	8,077
Liability insurance	3,257	1,905
Miscellaneous	4,505	4,137
<b>Total expenses</b>	<u>554,235</u>	<u>692,369</u>
<b>Net income (loss)</b>	38,475	(165,040)
<b>Surplus, January 1st</b>	229,055	394,095
<b>Surplus, December 31st</b>	<u>\$267,530</u>	<u>\$229,055</u>

See accompanying notes to financial statements.



**MONTANA MEDICAL LEGAL PANEL  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Panel was established by the "Montana Medical Legal Panel Act", as authorized by Section 27-6-101 and 104 M.C.A. The Panel is attached to the Montana Supreme Court for administrative purposes only, except that 2-15-121(2) M.C.A. does not apply.

The Panel was created to review all malpractice claims or potential claims against health care providers for the purpose of preventing, where possible, the filing of court actions against health care providers and their employees for professional liability in situations where the facts do not permit at least a reasonable inference of malpractice and to make possible the fair and equitable disposition of such claims against health care providers as are or reasonably may be well founded.

**Cash Basis**

The Panel follows the cash basis of accounting whereby items of expense are recognized as cash is paid and revenues are recognized when cash is received. This is a comprehensive basis of accounting other than generally accepted accounting principles.

**Assessment Fees**

Annual assessments are levied against licensed physicians, dentists, podiatrists, hospitals, and other health care facilities in an amount sufficient to meet all panel costs. Annual assessments are apportioned among each group of health care providers according to the number of claims brought against each type of provider.

**NOTE 2. CASH DEPOSITS**

Cash in bank consists of the following deposit accounts:

	2001	2000
Valley Bank - checking	\$ 7,474	\$ 224,513
Valley Bank - savings	51,953	1,646
American Federal Savings Bank - checking	-	-
American Federal Savings Bank - savings	104,237	1,717
Mountain West Bank - savings	103,866	1,179
	<u>\$ 267,530</u>	<u>\$ 229,055</u>

Individual accounts are insured up to \$100,000.



**MONTANA MEDICAL LEGAL PANEL  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**NOTE 3. RELATED PARTIES**

G. Brian Zins is director of both the Montana Medical Association and the Montana Medical Legal Panel. The Montana Medical Association bills the Montana Medical Legal Panel for services and facilities provided to that organization. This administrative fee is subject to the approval of the Chief Justice of the Montana Supreme Court. The Montana Medical Association was paid administrative fees of \$208,292 in 2000 and \$197,688 in 2001.

**NOTE 4. INCOME FROM ASSESSMENT FEES**

Billings for Panel assessments for the calendar year are normally mailed to medical service providers in January and payment is due in April. Increasing costs in 1999 and 2000 created a potential shortage of funds before the end of each calendar year. To address this shortage, Panel assessments for 2000 were mailed in October, 1999 (instead of January, 2000) with the normal due date of April 1, 2000 but with a discount allowed for payment by November 15, 1999. Similarly, assessments for 2001 were mailed in November, 2000.. Consequently, assessments for 2000 and 2001 were received over a span of two years each as follows:

	<u>2001</u>	<u>2000</u>	<u>Total</u>
Received in 1999	-	443,000	
Received in 2000	270,327	245,781	516,108
Received in 2001	580,053	-	580,053
Total	<u>\$ 850,380</u>	<u>\$ 688,781</u>	

Assessments for 2002 were mailed on the normal schedule.

**NOTE 5. LEGAL FEES/LITIGATION**

Panel legal counsel fees are incurred for time spent by the Panel's legal counsel in compiling data for and preparing statistical reports pertaining to claims filed, hearings held, disposition of claims subsequent to Panel hearings and assisting the Panel in setting assessments.

Legal defense fees were incurred in responding to actions brought against the Panel seeking access to medical records from the Panel and/or health care providers involved in Panel hearings. Aside from legal costs, no significant liability to the Panel is expected to result from these actions.

**NOTE 6. RISK MANAGEMENT**

The Panel is exposed to risk of loss primarily through possible errors and omissions pertaining to claims filed with the Panel. This risk is transferred through the purchase of a professional liability policy from a private insurance carrier.





**HENRY FENTON  
CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

May 21, 2002

Mr. G. Brian Zins  
Montana Medical Legal Panel  
2021 Eleventh Avenue  
Helena, Mt. 59601

I have audited the financial statements of the Montana Medical Legal Panel as of and for the two years ended December 31, 2001, and 2000 and have issued my report thereon dated May 21, 2002. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montana Medical Legal Panel's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However I did note one matter that I determined should be brought to the attention of management, which is described in the accompanying schedule of findings as item 01-01.

Internal Control Over Financial Reporting

In planning and performing my audits, I considered the Montana Medical Legal Panel's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in



the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness.

Status of Prior Year Findings

There were no findings in the prior year's report.

This report is intended solely for the information and use of the legislative audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountant



**MONTANA MEDICAL LEGAL PANEL**  
**December 31, 2001**

**SCHEDULE OF FINDINGS**

**FINDINGS – OTHER MATTERS**

- 01-01 Last year the Legislative Audit Committee expressed concern that the balance in one of the Panel's bank accounts exceeded the \$100,000 limit for FDIC insurance. This year two accounts exceeded the \$100,000 limit, although by much smaller amounts (see Note 2 to the financial statements on page 7 of this report package). The excess deposits did exist for a number of months.

Recommendation: I recommend that the Panel's management more closely monitor deposit balances to avoid exceeding the insurance limits.



# Montana Medical Legal Panel

2021 Eleventh Avenue, Suite 1, Helena, Montana 59601-4890 • Telephone (406) 443-1110 • FAX (406) 443-4042

June 4, 2002  
Tuesday

Mr. Scott A. Seacat  
Legislative Auditor  
P. O. Box 201705  
Helena, Montana 59620-1705

Dear Mr. Seacat:

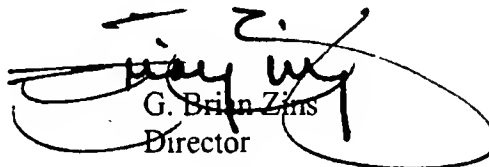
As Director of the Montana Medical Legal Panel, I am corresponding with you about the recently completed audit of the Panel by Henry Fenton, C.P.A.

We have reviewed the audit, and in accordance with the findings, we will monitor the deposit balances more closely to ensure the balances do not at all exceed the insurance limits.

We believe the audit accurately represents the financial records of the Panel for the 2001 fiscal year.

All best wishes.

Sincerely,



G. Brian Zins  
Director

GBZ:jb







